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SUBJECT: GOL DEFENSE SPENDING ON THE RISE

**¶1.** (SBU) Summary: Lithuania is set to achieve a 15 percent increase in its defense budget in 2006 in absolute terms. The key benchmark of military spending as a percentage of GDP will rise from 1.27 in 2005 to 1.32. Defense officials and key members of parliament are aware that sustained increases in spending and more flexible funding procedures are necessary to meet Lithuania's transformation goals and heightened NATO obligations. The lack of a mechanism to fund major capital acquisitions, however, will continue to hamper long-term military planning, as evinced this budget cycle by disagreements over the purchase of transport aircraft. We will continue to focus on the issue of defense spending in discussions with parliamentary leaders and in public diplomacy outreach. End Summary.

**¶2.** (U) Parliament will vote December 8 on the 2006 budget. Due to Lithuania's rapidly growing economy, a 15 percent increase in defense spending translates into a 0.05 percent increase in military expenditures as a percentage of GDP. This 0.05 percent growth figure is the goal that proponents in parliament of increased defense spending set as their goal for the 2006 budget. MOD officials and parliamentarians told us that securing such an increase will be a major accomplishment considering the other pressing priorities in a country whose GDP per capita is approximately USD 6500.

**¶3.** (SBU) Budget and Finance Committee Chair Jonas Lioginas told us November 29 that he sees no obstacles to passage of the defense budget in its current form. The MOD's request to take out a loan of USD 36 million to fund the purchase of one passenger plane for government officials and three tactical transport planes, however, is up against significant opposition. (Two U.S. companies, Lockheed Martin and Boeing, would like to sell Lithuania the passenger plane.) Lioginas's committee did not approve the loan. He explained to us his view that the MOD should fund its purchases out of its budget. Prime Minister Brazauskas, not normally considered a defense hawk, surprisingly weighed in on this issue on November 29 with a public statement of support for the purchase of the planes. Brazauskas did not comment on the question of whether a loan is the best way to fund this acquisition.

**¶4.** (U) The issue of the loan for the transport planes, which would help fulfill a NATO force goal, highlights the difficulty the GOL faces in making major acquisitions and engaging in long-term defense planning. The MOD is not able to fund such large acquisitions out of its budget. A USD 36 million expenditure for aircraft, for example, would consume approximately ten percent of the entire defense budget. MOD officials told us they have briefed MPs on this problem. MP Vaclov Stankevic, Chair of the NATO commission, told us that he is keenly aware of the need for more flexible funding procedures, but that many MPs are still not focused on this issue.

**¶5.** (SBU) The MOD is also limited in its ability to project its budget picture with the accuracy it needs. The Ministry of Finance provides three-year budget projections, but defense officials have to figure out how to meet NATO force goals far beyond that. MOD officials also admit that they still face a learning curve in NATO force goal development, a process that they have now experienced twice. MOD officials told us that locking in a 0.05 percent yearly increase in defense spending as a percentage of GDP would be an important step in bringing some clarity to their long-term budget picture.

**¶6.** (SBU) Defense officials predicted to us that, due to these constraints, they will face significant challenges in meeting certain NATO force goals and deadlines in the 2006-2008 cycle. They specifically cited communications capabilities, an explosive ordnance disposal platoon, a role 2 medical facility, and the transport aircraft as areas where they will miss deadlines or only partially fulfill requirements. They assured us that they are in close contact with NATO to refine deadlines and keep the Alliance informed of potential shortfalls.

**¶7.** (SBU) Comment: The 15 percent increase in defense spending that the GOL will likely achieve this year represents a step forward in building the military we want

Lithuania to have. Support in parliament for increasing spending to meet the two percent goal appears solid, though there are no illusions that at the current rate the GOL will reach its goal anytime soon. We will work to support the MOD in institutionalizing 0.05 percent as a percentage of GDP as a minimum yearly increase in defense spending. We will also engage MPs on the necessity of having more flexible funding mechanisms for big-ticket items that are difficult to include as line items in yearly budgets.

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